

PRELIMINARY

1999-2000

LRB-0331/1

STATE OF WISCONSIN

APPENDIX TO 1999 ASSEMBLY BILL 9

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced by Representatives Schneider, Boyle, Berceau and Ryba, cosponsored by Senator George.)

An Act to amend 40.02 (15) (a) (intro.), 1. to 4. and 6., (b) and (c) (intro.) and 1. to 3. , 40.02 (17) (intro.), 40.02 (40), 40.02 (48m) (f), 40.05 (2) (b), 40.25 (7) (a) (intro.), 40.25 (7) (b), 40.30 (3) and 40.71 (1) (c); and to create 40.02 (59) and 40.05 (2) (bx) of the statutes; relating to: granting creditable service under the Wisconsin retirement system for service in the federal peace corps or VISTA public service programs or in any national service program under the federal National and Community Service Act of 1990.

EXTRACT OF COMMITTEE'S RECOMMENDATION ON THIS BILL

The Joint Survey Committee on Retirement Systems finds that Assembly Bill 9 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

PURPOSE OF THE BILL

This bill relates to granting creditable service under the Wisconsin Retirement System (WRS) for any participant in the WRS for service in: (1) the Federal Peace Corps; (2) Volunteers in Service to America (VISTA) public service programs; or (3) in any national service program under the Federal National and Community Service Act of 1990. The credit would be calculated on the same basis as the current military service credit.

Currently, a participant in the WRS may receive creditable service under the WRS for military service. Under s. 40.02, Stats., military service is of two types:

1. A participant: (a) enlisted or was ordered or inducted into active service in the U.S. Armed Forces; (b) left the employment of a participating employer to enter the U.S. Armed Forces; (c) returned to the employment of the same employer within 180 days of release or discharge from the U.S. Armed Forces or released from hospitalization because of injury or sickness resulting from service in the U.S. Armed Forces; (d) served for not more than four

years unless his or her service was involuntarily extended for a longer period; (e) was discharged from the U.S. Armed Forces under conditions other than dishonorable; and (f) upon return from service in the U.S. Armed Forces furnished evidence required to establish the participant's rights. If these conditions are met, the person may receive one year of military service credit for each year of military service regardless of the amount of the participant's other creditable service in the WRS. [s. 40.02 (15) (a), Stats.]

2. A participant performed military service before 1974 and terminated covered employment under the WRS on or after March 9, 1984. The participant may receive one, two, three or four years of military service if the participant has at least 5, 10, 15 or 20 years respectively of creditable service. However, any other creditable military service granted under s. 40.02 (15) (a), Stats., is included in determining the maximum years of military service credit granted under this provision. [s. 40.02 (15) (c), Stats.]

This bill provides that a participant who has served in the Federal Peace Corps, the VISTA public service program or a national service program under the Federal National and Community Service Act of 1990, will receive the same treatment, as is described above, as is provided for military service.

ACTUARIAL EFFECT

This bill will affect the WRS by increasing the years of creditable service for employees who retire under formula benefits. It will require adjustment of the employee contribution rate for employees who are eligible for the credit. The rate must be sufficient to amortize the unfunded prior service liability for the new benefit over the remainder of the 40-year amortization period. As of December 31, 1999, 30 years remained on the amortization schedule.

PROBABLE COSTS

From 1961 through 1973 there were 2,176 Peace Corps volunteers from Wisconsin, with a total of approximately 4,624 years of duty. Assuming 1 in 11 is in public employment, would result in 420 years of service as the amount credited under this bill for Peace Corps volunteers. The affected WRS members are mostly in the 54-66 age group which has approximately 746,000 years of accumulated service compared to about 2,823,000 years for all active WRS employees, and a payroll of \$1.612 billion compared to \$8.23 billion for all active employees.

Based on the fiscal year 2000 contribution rate for WRS groups of 11.22%, the estimated cost would be \$102,000 for Peace Corps service.

Although at the present time there is no accurate data available on the total number of Wisconsin employees who participated in the VISTA program and other federal service programs, doubling the estimated costs for the Peace Corps services yields a cost of approximately \$200,000 in 2001. The state's share would be 29% or \$58,000. The remainder would be paid by other employers.

The Department of Employee Trust Funds estimates that the initial cost for implementation of the bill for staff training, developing and updating information material, revising the department's

toll-free message system and developing procedures for review of qualifying volunteer services. One-time salary and fringe costs associated with this amount to \$10,600. Further one-time costs associated with applications and mailings would be \$1,400. The Controller's office would also update the unfunded liability balance of employers, calculate the new prior service contribution rates and update those rates. The estimated costs per year would be \$290.75 based on 50 participants per year times a quarter of an hour per participant times \$2,326 per hour salary and fringe benefit. Also, the Division of Employer Services estimates that ongoing costs of \$1,053 per year and one-time costs for revising the implementation administrative manual and employer bulletin to employers notifying them of the new law will cost \$157.

PUBLIC POLICY

The purpose of this legislation is to grant creditable service comparable to the credit for military service currently granted to participants in the WRS.

The employer contribution rate for the WRS will be adjusted to reflect the cost of granting creditable volunteer service for participating employees. The rate must be sufficient to amortize the unfunded prior service liability of the employers over the remainder of the original 40-year amortization period, of which 30 years remain.

It is not known at this time how many state and local employees who are participants in the WRS will be affected, but, according to the Department of Employee Trust Funds, it is anticipated that only a relatively small number of persons, approximately 50 per year, would recognize the benefits of this bill. These persons benefit only if the formula benefit increase provided by this bill would cause the use of that method of calculation of a participant's annuity, rather than money purchase.

RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that 1999 Assembly Bill 9 [represents good public policy, and the Committee recommends its passage] [does not represent good public policy, and the Committee does not recommend its passage].

2/21/00

STATE OF WISCONSIN
JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS
MONDAY, FEBRUARY 21, 2000
11:00 A.M.
ROOM 417 NORTH (GAR), STATE CAPITOL BLDG.

A G E N D A

1. Call to Order and Roll Call.
2. Consideration of the Minutes of the January 24, 2000 Meeting.
3. **Assembly Bill 9** relating to granting creditable service under the Wisconsin retirement system for service in the federal peace corps or VISTA public service programs or in any national service program under the federal National and Community Service Act of 1990.
4. **Assembly Bill 124** relating to creditable military service under the Wisconsin retirement system.
5. **Senate Bill 88** relating to creditable military service under the Wisconsin retirement system.
6. **Assembly Bill 145** relating to granting creditable service under the Wisconsin retirement system for service in the federal public health service.
7. **Senate Bill 105** relating to classifying certain teachers employed by the state as protective occupation participants under the Wisconsin retirement system.
8. **Senate Bill 211** relating to classifying certain nurses employed by the state as protective occupation participants under the Wisconsin retirement system.
9. **Assembly Bill 388** relating to the normal retirement date under the Wisconsin retirement system for individuals employed by certain school districts.
10. **Assembly Bill 426** relating to death benefits provided under the Wisconsin retirement system and making an appropriation.
11. **Assembly Bill 455** relating to establishing a presumption for employment-connected disease for state and county fire fighters.
12. **Assembly Bill 656** relating to granting creditable service under the Wisconsin retirement system to certain assistant district attorneys formerly employed by Milwaukee County and making an appropriation.

(An Executive Session may be held during or immediately following the public hearing on the above and/or any other items pending before the Committee)

13. Other Matters.
14. Adjournment.

BILLS OF IMMEDIATE INTEREST

A.B. 9 – Pension Credit for Service in the Peace Corps, VISTA, etc.

Data has been requested from the Peace Corps to enable estimation of this bill's cost. A source for VISTA data is being sought. We will also need to identify other federal programs that might also be covered by this bill. The cost estimate will be easy to make once we have the data, and basic data in summarized form should be sufficient.

A.B. 309 – Excluding Part-Time, Seasonal and Contractual Employees from Social Security

-Plate -Shibilski

The general effect of this would be to save the State 7.65% of the payroll for employees currently covered by Social Security who elect the alternative money purchase plan to be provided for them in lieu of Social Security coverage.

There are two questions to be answered in order to estimate the cost savings to the State under this bill:

1. **The Data Question:** How many employees and how much payroll would be affected? We may also have to get some idea of their relative ages, as explained below.
2. **The Election Question:** What percentage of employees at different pay levels would be likely to decline Social Security in favor of the private retirement plan offered to them?

I would think that older low paid employees would be inclined to prefer Social Security over the 7.5% money purchase plan, if they realized that Social Security uses a front-loaded benefit formula that greatly favors the lower paid. Also, Social Security benefits are not (yet) fully taxable, while pension benefits are. Younger employees with more years to go until retirement would seem likelier to choose the money purchase plan. Also, younger people seem to have little faith in the survival of Social Security.

Ideally, we would like to get data on election rates from another state that has already implemented this. If we cannot get data this way, then we will have to try to get age information and make some educated guesses as to rates of election of the alternate plan.

We have "absolute coverage" agreement w/ feds

S.B. 119 – Joint & Survivor Death Benefit Beneficiary No Longer Must Be a Dependent

Information needed to estimate the cost of this bill can probably all be obtained from ETF. I would need some information about the election of lump sums by those eligible for the J&S benefit, and also it might help to have the active life data that ETF gave the actuaries for the 1998 valuation. With this, it would require from 1 to 3 days of work (2 to 6 working days) for me to prepare the fiscal estimate -- depending on whether I could find a way to estimate it by hand, or had to adapt spreadsheets that I developed for the ORP study.

A.B. 245 -- Physical Examinations Required for Duty Disability

There are three conditions for a protective participant to be eligible for duty disability:

1. Injured or sickened in the line of duty, and
2. The disability is likely to be permanent, and
3. It causes him/her to retire, to be given light duty, or to lose chance of advancement.

This bill would require periodic medical examinations to determine whether the disability has continued. If not, then the disability benefit would be terminated. It might be helpful to define more carefully to what degree the disability must have persisted -- e.g., if the doctor no longer thinks that it seems likely to be a permanent condition, then has the disablement ended?

Note that the final paragraph of the bill is not enforceable against the former employer. There is no way to assure that an employee who has recovered from disability will get his or her former job back -- or for that matter, that the individual will be able to secure a similar job anywhere. If the recovered employee cannot secure a similar job, then he or she might have to accept a new line of work in order to find employment.

For such employees, this legislation would, in effect, be imposing *after the fact* the same strict definition of disability as non-protective employees are subjected to by 40.63(1)(b) *before the fact* (i.e., before they are granted disability benefits) -- namely, that the ability to perform any substantial gainful activity is enough to disqualify them from disabled status.

From here it is only a small step of logic to ask why the law should not be changed to apply to protective participants the stricter 40.63(1)(b) definition of disability in the first place. If this seems too harsh a policy to apply to police, etc., then a smaller partial duty disability benefit could be defined to fill the gap. (Just a thought.)

Employer contribution rates for the Section 40.65 disability insurance program are now about 3.3% of protectives' \$710 million payroll. Therefore, the full cost for duty disability is running at about \$23.5 million annually. If, for example, one in four future disabilities would be terminated under this bill, then the ultimate savings (in current dollars) would be somewhat less than one-fourth of the full \$23.5 million now being spent -- that is, somewhat less than 0.8% of payroll or \$6 million annually.

It would not be a full one-fourth of the total disability cost because (1) ETF would bear some expense for the medical examinations, and (2) each person disqualified for benefits would have drawn some benefits before being disqualified. For this example we can roughly estimate that the actual cost savings to the employers from this bill would be about 75% of the potential savings, which is about 0.62% of payroll or \$4,400,000 annually (in current dollars).

This much savings would not be realized immediately, but would be the limit of a pattern of increased savings each year over a period of time. This is because much of the current 3.3% of payroll contribution is needed to pay for those currently disabled, who are less likely to lose their benefits under this bill than are those who will become disabled in the future.

The assumption that one in four disabilities might be terminated under this bill is for purposes of example only. Further research would have to be done to learn what level of recovery might indeed be expected. "One in four" is a subjective impression that I have based on my previous experience with the West Virginia State Police, and it may or may not be a good assumption to use for a WRS estimate.

NOTES ON OTHER BILLS

A.B. 48 & S.B. 142 – Protective Status for County Jailers

Fiscal note has been sent out.

A.B. 124 / S.B. 88 – Allows Pre-1974 Military Service & "Double-Dipping"

I have the necessary data for costing out the addition of pre-1974 military service. The "double-dipping" part of the bill may prove to be more problematical. It will take a couple of working days to estimate the former. I should have a better idea of the latter once I've done the former.

S.B. 88 also allows "double-dipping", so it will be estimated along with A.B. 124.

A.B. 145 – Pension Credit for Public Health Service Work

I should have the fiscal note done in a couple of days. Very minimal cost to WRS.

A.B. 916 – Social Security/Part-Time Employees

This is similar to A.B. 309. *SS admin. won't want to do this (ETF has concerns also)*

S.B. 105 – Corrections Teachers Getting Protective Status

We will send this fiscal note out today or tomorrow. Pension cost is about \$300,000. These teachers don't satisfy the physical part of the definition for protectives, according to someone over at Corrections.

S.B. 127 – Retroactive Death Benefits to 1/1/97

Should not be too hard to estimate, but this is a bad idea. Why draw the line at 1/1/97?

Scott's calendar:

May 18: Coalition of Annuitants meeting
May 19: DER class
May 20: DER class
May 26: DER class
May 27: DER class
June 17-July 5: Vacation
Jul 8: Dental appointment
Jul 26: Dental appointment

Debra Breggeman's bad days (when she can't stay late):

June 2, June 9, June 16.

Other considerations:

Norm should have the variable annuity study done around June 15 thru the end of June.

As soon as we get into the new fiscal year he can begin his study of benefit increase bill(s) [A.B. 260, A.B. 323, S.B. 131, maybe others?].